

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Calhoun County Road Commission	County Calhoun
Audit Date 12/31/05	Opinion Date 4/14/06	Date Accountant Report Submitted to State: 6/7/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

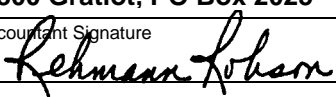
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Accountant Signature 		ZIP 48605	Date 6/7/06

**CALHOUN COUNTY ROAD
COMMISSION**

(a Component Unit of Calhoun County)

Marshall, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

CALHOUN COUNTY ROAD COMMISSION
(a Component Unit of Calhoun County)

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements for the Year Ended December 31, 2005	
Statement of Net Assets and Governmental Fund Balance Sheet	11
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets	12
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	14
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual - General Operating Fund	15
Notes to Financial Statements	16-28
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Special Revenue Funds – Combining Balance Sheet	29
Nonmajor Special Revenue Funds – Combining Statement of Revenue, Expenditures and Changes in Fund Balances	30
General Operating Fund – Detail Schedule of Revenue	31
General Operating Fund – Detail Schedule of Expenditures	32
General Operating Fund – Schedule of Revenue, Expenditures and Changes in Fund Balances	33



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

April 14, 2006

Members of the Board of County
Road Commissioners
County of Calhoun, Michigan
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***CALHOUN COUNTY ROAD COMMISSION, a component unit of Calhoun County, Michigan***, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calhoun County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the **Calhoun County Road Commission** as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Calhoun County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Calhoun County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2005.

Financial Highlights

The Calhoun County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Calhoun County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$41,820,816 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$268,674. This was comprised of a decrease of \$30,103 in infrastructure assets, and an increase of \$298,777 in unrestricted net assets.

At the end of the current fiscal period, general fund unreserved fund balance was \$1,501,984 or 11% of total general fund expenditures, or an increase of \$444,620 over last fiscal year.

The Road Commission's debt increased by approximately \$66,273 during the current fiscal year; new debt was issued in the amount of \$ 650,000 which represents the sale of MTF Bonds. Proceeds of these bonds were used for road improvement programs.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is strengthening or weakening.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Road Commission that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Road Commission include public works projects on County roads. There were no business-type activities of the Road Commission in 2005.

Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by Michigan Transportation fund distributions and intergovernmental grants and charges for services. The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Calhoun County, as well as providing housing rehabilitation and other community development programs to Calhoun County residents.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Calhoun County, which reports the Commission as a component unit.

Fund financial statements. A *fund* is grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in four governmental funds – the General Fund, and Housing Rehabilitation, Community Development and Remonumentation Funds.

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains four governmental funds. The general fund is the major fund for financial reporting purpose as defined by GASB Statement #34. The Housing Rehabilitation, Community Development and Remonumentation Funds are nonmajor funds.

The Commission adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided herein for the General Fund in order to demonstrate compliance with the budget.

The Commission does not maintain proprietary nor fiduciary funds.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Road Commission, assets exceeded liabilities by \$41,820,816 at the close of the most recent fiscal year.

By far the largest portion of the Road Commission's net assets (95 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net assets:	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 3,965,491	\$ 3,634,295
Capital assets	<u>42,641,557</u>	<u>42,590,403</u>
Total assets	<u>46,607,048</u>	<u>46,224,698</u>
Long-term liabilities outstanding	3,243,289	3,177,016
Other liabilities	<u>1,542,943</u>	<u>1,508,178</u>
Total liabilities	<u>4,786,232</u>	<u>4,685,194</u>
Net assets:		
Invested in capital assets	39,398,268	39,413,387
Unrestricted	<u>2,422,548</u>	<u>2,126,117</u>
Total net assets	<u>\$ 41,820,816</u>	<u>\$ 41,539,504</u>

At the end of the current fiscal year, the Road Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by \$268,674 during the current fiscal year. The majority of this growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

Road Commission's Changes in Net Assets

Condensed Statement of Activities:

Revenue	<u>2005</u>	<u>2004</u>
Program revenue		
Charges for services	\$ 2,999,666	\$ 3,068,849
Operating grants and contributions	9,258,495	10,160,858
Capital grants and contributions	<u>818,931</u>	<u>665,781</u>
Total program revenue	<u>13,077,092</u>	<u>13,895,488</u>
General revenue – Interest income	<u>11,405</u>	<u>3,162</u>
Total revenue	<u>13,088,497</u>	<u>13,898,650</u>
Expenses		
Public Works	12,692,489	13,067,087
Debt Service - Interest only	<u>124,334</u>	<u>143,731</u>
Total expenses	<u>12,819,823</u>	<u>13,210,818</u>
Increase in Net Assets	<u>\$ 268,674</u>	<u>\$ 687,832</u>

Governmental activities. Governmental activities increased the Road Commission's net assets by \$268,674 during fiscal year 2005.

– Key elements of this increase are because the Road Commission was able to adjust their expenses to match the decrease in revenue from the Michigan Transportation Fund.

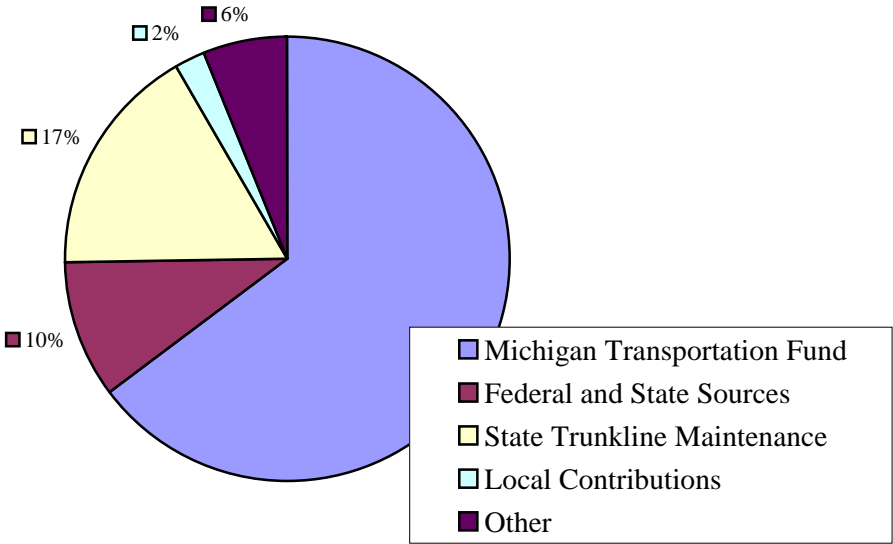
Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found following the Basic Financial Statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the *Management Discussion and Analysis*.

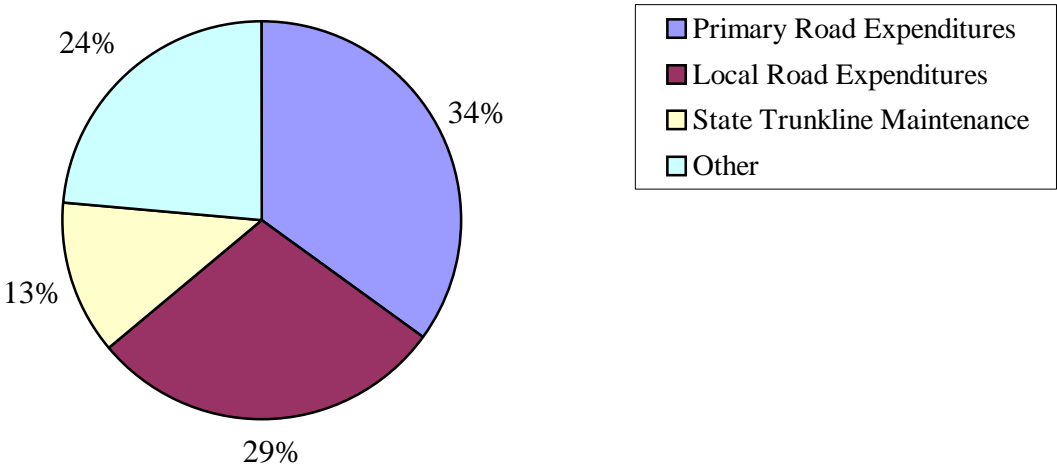
Fund Level Financial Statements

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$2,467,639, an increase of \$298,777 in comparison with the prior year. Approximately 69% of this total amount (\$1.68 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance of the general fund is approximately \$1,502,000, which represents 11.5% of total general fund expenditures. Unreserved fund balance of the general fund had an increase of approximately \$444,000 due to a reduction in expenditures in excess of revenues.

Revenues by Source - Governmental Activities



Expenditures - General Fund



Capital Assets and Debt Administration

Capital Assets

Major capital asset events during the current fiscal year included the following:

- Infrastructure assets reflect construction and improvements to the primary and local road system. Total additions for roads and bridges were approximately \$1,780,000 in 2005.

Calhoun County Road Commission Capital Assets (net of depreciation)

	<u>2005</u>	<u>2004</u>
Land and improvements – not depreciated	<u>\$ 22,128,121</u>	<u>\$ 21,483,686</u>
Land improvements	72,387	75,305
Buildings	1,739,615	1,781,407
Road Equipment	9,015,978	9,008,767
Shop Equipment	246,657	246,657
Office Equipment	428,118	409,509
Engineering Equipment	76,115	76,115
Yard and Storage Equipment	814,254	882,653
Depletable assets	147,667	235,267
Infrastructure		
Roads and Signals	31,435,142	30,530,699
Bridges	<u>6,710,610</u>	<u>6,479,283</u>
Sub-total – capital assets depreciated	<u>50,686,543</u>	<u>49,665,662</u>
Accumulated Depreciation		
Buildings and improvements	1,476,776	1,503,104
Depleteable assets	112,544	136,554
Equipment	9,207,628	9,067,621
Infrastructure – Roads and Signals	16,972,970	15,786,982
Infrastructure – Bridges	<u>2,403,189</u>	<u>2,064,684</u>
Total Accumulated Depreciation	<u>30,173,107</u>	<u>28,558,945</u>
Total capital assets being depreciated – net	<u>20,513,436</u>	<u>21,106,717</u>
Governmental activities capital assets – net	<u>\$ 42,641,557</u>	<u>\$ 42,590,403</u>

Long-term Debt	<u>2005</u>	<u>2004</u>
Bonds Payable	\$ 2,570,000	\$ 2,275,000
Lease Purchase Agreements	383,946	625,473
Contracts Payable	<u>289,343</u>	<u>276,543</u>
Total	<u>\$ 3,243,289</u>	<u>\$ 3,177,016</u>

New debt in the amount of \$ 650,000 was issued in 2005. Additional information on the Road commission's long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget during the year to reflect the allocation between primary and local road projects after completion of the 2005 Master List of Projects.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Managing Director, Calhoun County Road Commission at 13300 Fifteen Mile Road, Marshall, MI 49068.

BASIC FINANCIAL STATEMENTS

CALHOUN COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2005

	<u>Major Fund</u> <u>General</u> <u>Operating</u>	<u>Nonmajor</u> <u>funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Net Assets</u>
Assets					
Cash and interest bearing deposits	\$ 736,056	\$ 51,259	\$ 787,315	\$ -	\$ 787,315
Accounts receivable					
Michigan Department of Transportation	1,564,850	-	1,564,850	-	1,564,850
Due from other governmental units	49,970	84,352	134,322	650,601	784,923
Other	47,823	-	47,823	-	47,823
Due from other County funds and component units:					
Parks fund	48,817	-	48,817	(48,817)	-
Board of Public Works component unit	601,784	-	601,784	(601,784)	-
Due from General Operating fund	-	157,919	157,919	(157,919)	-
Due from Remonumentation fund	29,314	-	29,314	(29,314)	-
Due from Community Development fund	-	1,320	1,320	(1,320)	-
Inventories					
Road materials	518,267	-	518,267	-	518,267
Equipment material and parts	262,313	-	262,313	-	262,313
Capital assets					
Assets not being depreciated	-	-	-	22,128,121	22,128,121
Assets being depreciated	-	-	-	20,513,436	20,513,436
Total assets	\$ 3,859,194	\$ 294,850	\$ 4,154,044	42,453,004	\$ 46,607,048
Liabilities					
Accounts payable	1,023,182	-	1,023,182	-	1,023,182
Due to Housing Rehabilitation fund	27,882	-	27,882	(27,882)	-
Due to Community Development fund	130,037	-	130,037	(130,037)	-
Due to General Operating fund	-	29,314	29,314	(29,314)	-
Due to Remonumentation fund	-	1,320	1,320	(1,320)	-
Accrued liabilities	146,728	-	146,728	45,091	191,819
Escrow deposits	77,492	-	77,492	-	77,492
Deferred revenue	-	79,141	79,141	-	79,141
Short-term equipment advances	171,309	-	171,309	-	171,309
Long-term liabilities					
Due within one year	-	-	-	935,768	935,768
Due after one year	-	-	-	2,307,521	2,307,521
Total liabilities	1,576,630	109,775	1,686,405	3,099,827	4,786,232
Fund Balance/Net Assets					
Fund balance					
Reserved					
Inventories	780,580	-	780,580	(780,580)	-
Unreserved					
Undesignated	1,501,984	185,075	1,687,059	(1,687,059)	-
Total fund balance	2,282,564	185,075	2,467,639	(2,467,639)	-
Total liabilities and fund balance	\$ 3,859,194	\$ 294,850	\$ 4,154,044		
Net Assets:					
Investment in capital assets, net of related debt				39,398,268	39,398,268
Unrestricted				2,422,548	2,422,548
Total net assets				\$ 41,820,816	\$ 41,820,816

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2005

Fund balances - Governmental Funds	\$ 2,467,639
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,641,557
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,570,000)
Installment lease purchase agreements payable	(383,946)
Contracts payable	(289,343)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	<u>(45,091)</u>
Net assets of governmental activities	<u><u>\$ 41,820,816</u></u>

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2005

	Major Fund		Total		
	General Operating	Nonmajor funds	Governmental Funds	Adjustments	Statement of Activities
Expenditures/Expenses					
Current:					
Public works	\$ 12,338,643	\$ 379,562	\$ 12,718,205	\$ (25,716)	\$ 12,692,489
Debt service:					
Principal	596,527	-	596,527	(596,527)	-
Interest	124,988	-	124,988	2,346	127,334
Total expenditures/expenses	<u>13,060,158</u>	<u>379,562</u>	<u>13,439,720</u>	<u>(619,897)</u>	<u>12,819,823</u>
Program revenue					
Charges for services	2,643,997	355,669	2,999,666	-	2,999,666
Operating grants and contributions	9,258,495	-	9,258,495	-	9,258,495
Capital grants and contributions	818,831	100	818,931	-	818,931
Total program revenue	<u>12,721,323</u>	<u>355,769</u>	<u>13,077,092</u>	<u>-</u>	<u>13,077,092</u>
Net program revenue					<u>257,269</u>
General revenue					
Interest revenue	<u>11,405</u>	<u>-</u>	<u>11,405</u>	<u>-</u>	<u>11,405</u>
Other financing sources (uses)					
Proceeds from bond issuance	<u>650,000</u>	<u>-</u>	<u>650,000</u>	<u>(650,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>650,000</u>	<u>-</u>	<u>650,000</u>	<u>(650,000)</u>	<u>-</u>
Net change in fund balances	322,570	(23,793)	298,777	(298,777)	
Change in net assets				268,674	268,674
Fund balance /net assets, beginning of year, as restated	<u>1,959,994</u>	<u>208,868</u>	<u>2,168,862</u>	<u>39,383,280</u>	<u>41,552,142</u>
Fund balance /net assets, end of year	<u><u>\$ 2,282,564</u></u>	<u><u>\$ 185,075</u></u>	<u><u>\$ 2,467,639</u></u>	<u><u>\$ 39,353,177</u></u>	<u><u>\$ 41,820,816</u></u>

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - Governmental Funds	\$ 298,777
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	159,767
Add - Infrastructure additions	1,780,205
Deduct - depreciation expense	(1,836,500)

Bond proceeds are an other financing source in the funds but not in the statement of activities	(650,000)
---	-----------

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Bond payments	355,000
Contract and lease purchase installment payments	241,527
Addition to contract payable	(12,800)

Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	(2,346)
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(64,956)
-----------------------	----------

Change in net assets of governmental activities	<u>\$ 268,674</u>
---	-------------------

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION
GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2005

	Original Budget	Amended Budget	Actual	Actual Over (Under) Amended Budget
Revenue:				
Licenses and permits	\$ 125,000	\$ 200,000	\$ 120,527	\$ (79,473)
Intergovernmental:				
Federal sources	2,022,750	1,511,566	818,831	(692,735)
State sources	8,641,000	8,843,785	8,554,251	(289,534)
Local sources	461,400	497,150	246,231	(250,919)
Charges for services	1,645,372	1,815,372	2,277,239	461,867
Interest and rent	5,000	5,000	11,405	6,405
Other	13,500	668,585	704,244	35,659
Total revenue	12,914,022	13,541,458	12,732,728	(808,730)
Expenditures:				
Current:				
Construction	-	50,000	60,373	10,373
Primary heavy maintenance	3,128,750	2,243,902	1,158,947	(1,084,955)
Local heavy maintenance	409,000	562,440	552,063	(10,377)
Primary maintenance	3,409,760	3,075,087	3,871,197	796,110
Local maintenance	1,583,924	2,275,516	2,713,718	438,202
Equipment - net	1,767,331	1,767,331	88,316	(1,679,015)
Administrative	1,065,500	1,065,500	949,338	(116,162)
Other	1,645,372	1,890,372	3,049,203	1,158,831
Capital outlay - net	(143,655)	(233,955)	(104,512)	129,443
Debt service	717,071	722,812	721,515	(1,297)
Total expenditures	13,583,053	13,419,005	13,060,158	(358,847)
Revenue over (under) expenditures	(669,031)	122,453	(327,430)	(449,883)
Other financing sources				
Bond proceeds	-	650,000	650,000	-
Net change in fund balance	(669,031)	772,453	322,570	(449,883)
Fund balance, beginning of year	1,959,994	1,959,994	1,959,994	-
Fund Balance, end of year	\$ 1,290,963	\$ 2,732,447	\$ 2,282,564	\$ (449,883)

The accompanying notes are an integral part of these financial statements.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Calhoun County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Calhoun County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Calhoun, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Calhoun County Road Commission, a discretely presented component unit of Calhoun County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

The Road Commission also has the responsibility for administering various County projects and grants through the Community Development Department.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changed in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the government reports the following funds as nonmajor special revenue funds. The *housing rehabilitation fund* accounts for housing grants for projects within the County. The *remonumentation fund* accounts for revenues and expenditures of remonumentation programs within the County, and the *community development fund* accounts for various development projects which benefit the County.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Budgetary Data

The governmental funds are under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund and Special Revenue Funds are adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control in the general fund are reflected in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund.

Cash and Cash Equivalents

Amounts reported as cash and cash equivalents include cash in checking and savings accounts.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items.

Fund Balance Reservations

Certain assets of the Road Commission are reserved and therefore, not available for future appropriation. These include amounts reserved for inventory and prepaid items

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The Road Commission defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

Accrued Vacation and Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated at the rate of 100% of their vested vacation and sick leave upon termination for any reason. Beginning in 1999, the accumulated sick leave is paid off to the employees on an annual basis at the end of each calendar year. Accumulated vacation leave is not significant at December 31, 2005.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2005, the amount of the Road Commission's deposits were as follows:

	Carrying Amount	Bank Balance
Held by Calhoun County Road Commission	\$ 53,362	\$ 241,871
Held by Calhoun County	733,653	702,715
Petty cash	300	-
	\$ 787,315	\$ 944,586

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2005.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2005.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2005, \$141,871 of the Road Commission's bank balance of \$241,871 was exposed to custodial credit risk because that amount was uninsured by the FDIC. Deposits in the amount of \$702,715 held by Calhoun County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2005.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2005	Additions	Deductions	Adjustments and Reclassifications	Balance December 31, 2005
Capital assets not being depreciated:					
Land	\$ 484,292	\$ -	\$ -	\$ -	\$ 484,292
Land improvements - infrastructure	20,999,394	644,435	-	-	21,643,829
Total capital assets not being depreciated	21,483,686	644,435	-	-	22,128,121
Capital assets being depreciated:					
Land improvements	75,305	-	2,733	(185)	72,387
Buildings and improvements	1,781,407	22,557	64,349	-	1,739,615
Road equipment	9,008,767	118,601	108,294	(3,096)	9,015,978
Shop equipment	246,657	-	-	-	246,657
Office equipment	409,509	18,609	-	-	428,118
Engineers' equipment	76,115	-	-	-	76,115
Yard and storage	822,653	-	8,399	-	814,254
Depleteable assets	235,267	-	87,600	-	147,667
Infrastructure - roads and signals	30,530,699	904,443	-	-	31,435,142
Infrastructure - bridges	6,479,283	231,327	-	-	6,710,610
Total capital assets being depreciated	49,665,662	1,295,537	271,375	(3,281)	50,686,543
Accumulated depreciation and depletion					
Buildings and improvements	1,503,104	55,307	65,716	(15,919)	1,476,776
Equipment	9,067,621	256,700	116,693	-	9,207,628
Depleteable assets	136,554	-	24,010	-	112,544
Infrastructure - roads and signals	15,786,982	1,185,988	-	-	16,972,970
Infrastructure - bridges	2,064,684	338,505	-	-	2,403,189
Total accumulated depreciation and depletion	28,558,945	1,836,500	206,419	(15,919)	30,173,107
Total capital assets being depreciated - net	21,106,717	(540,963)	64,956	12,638	20,513,436
Governmental activities capital assets - net	\$ 42,590,403	\$ 103,472	\$ 64,956	\$ 12,638	\$ 42,641,557

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2005	Increases	Decreases	Balance December 31 2005	Due Within One Year
Bonds payable	\$ 2,275,000	\$ 650,000	\$ 355,000	\$ 2,570,000	\$ 405,000
Installment leases payable	625,473	-	241,527	383,946	252,985
Contracts payable	276,543	12,800	-	289,343	277,783
Totals	\$ 3,177,016	\$ 662,800	\$ 596,527	\$ 3,243,289	\$ 935,768

Transportation Bonds

The Road Commission has issued the following Transportation Fund Notes:

Series 1996 bonds are payable in one remaining annual installment of \$75,000 in 2006 with interest at 5.3% per annum.

Series 1997 bonds are payable in one remaining annual installment of \$45,000 in 2006 with interest at 6.0% per annum.

Series 1998 bonds are payable in annual installments of \$45,000 to \$50,000 with interest at 4.15% per annum. The final payment is due August 1, 2008.

Series 2002A bonds are payable in annual installments of \$90,000 with interest at 3.35% to 4.4% per annum. The final payment is due August 1, 2012.

The 2002B series bonds are payable in annual installments of \$35,000 to \$50,000 with interest at 3.15% to 4.00% per annum. The final payment is due August 1, 2012.

Series 2004 bonds are payable in annual installments of \$60,000 to \$115,000 with interest at 3.25% to 4.0% per annum. The final payment is due March 1, 2013.

Series 2005 bonds are payable in annual installments of \$45,000 to \$85,000 with interest at 3.00% to 4.05% per annum. The final payment is due March 1, 2015.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Special Assessment Contract

The Road Commission was assessed their portion of sewer construction costs for the Eastern Calhoun County Sewer Project No. 13 (Sheridan Township - Starr Commonwealth) in the amount of \$90,087 during 1992. Project construction and financing is being administered by the Calhoun County Department of Public Works. The Road Commission is responsible for making variable annual principal payments and interest at 3% of outstanding principal through the year 2007. At December 31, 2005, the Road Commission's portion of the sewer liability is \$22,610.

Land Contracts

Ott Property

The Road Commission has entered into a contract to purchase a building and land which provides for payments of \$600 per month beginning in October, 1999, with interest at 10% per annum. This is a negative amortization land contract where the accrued interest is added to the land contract principal balance. The balance outstanding at December 31, 2005 is \$266,733.

Installment Lease

The Road Commission has consolidated and refinanced various equipment leases into one installment lease contract, which is secured by the related equipment, and calls for semi-annual installments of \$134,031 through January 2007, which includes interest at 4.5%.

Annual debt service requirements to maturity for bonds, lease purchase agreements and contracts are as follows:

Year ending December 31,	Bonds		Installment Leases		Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 405,000	\$ 98,822	\$ 252,985	\$ 15,075	\$ 277,783	\$ 680	\$ 935,768	\$ 114,577
2007	305,000	80,363	130,961	3,070	11,560	350	447,521	83,783
2008	315,000	69,177	-	-	-	-	315,000	69,177
2009	280,000	57,388	-	-	-	-	280,000	57,388
2010	290,000	46,903	-	-	-	-	290,000	46,903
2011-2015	975,000	76,362	-	-	-	-	975,000	76,362
	<u>\$ 2,570,000</u>	<u>\$ 429,015</u>	<u>\$ 383,946</u>	<u>\$ 18,145</u>	<u>\$ 289,343</u>	<u>\$ 1,030</u>	<u>\$ 3,243,289</u>	<u>\$ 371,828</u>

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

In addition, the Road Commission has obtained short-term advances in order to finance capital equipment used for the State Trunkline Maintenance contract. The advance was reduced in 2005 by \$100,997, and resulted in a balance of \$171,309 at December 31, 2005.

5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At December 31, 2005, interfund receivables and payables were as follows:

	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 29,314	\$ 157,919
Nonmajor funds	<u>159,239</u>	<u>30,634</u>
	<u>\$ 188,553</u>	<u>\$ 188,553</u>

Also, at December 31, 2005, the General fund has an amount due from the Parks fund, which is another County fund, in the amount of \$48,817.

The Road Commission has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 15.3 % to 18.6% of annual covered payroll. Certain employees are required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$528,560 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2004, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 27 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 476,042	100%	\$ -
12/31/04	485,364	100	-
12/31/05	528,560	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>UAAL as a Percentage of Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
12/31/02	\$5,116,348	\$ 9,213,557	\$4,097,209	56%	\$3,125,496	131%
12/31/03	5,637,315	9,860,393	4,223,078	57	2,953,201	143
12/31/04	6,103,478	10,561,802	4,458,324	58	3,226,726	138

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Additional Information

On April 1, 1994, the Road Commission ceased its pension plan with John Hancock Mutual Life Insurance Company (JHMLIC). Sufficient reserves were set aside in annuities for the existing retirees of the Plan on April 4, 1994.

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Calhoun County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

8. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

CALHOUN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

9. RESTATEMENTS

There was a restatement (increase) in net assets at January 1, 2005, in the amount of \$12,638 due to the correction in the amount of book value of certain capital asset accounts' detail records.

* * * * *

OPERATING FUND SCHEDULES

CALHOUN COUNTY ROAD COMMISSION
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2005

	Housing Rehabilitation	Community Development	Remonumen- tation	Total
Assets				
Cash and cash equivalents	\$ 51,259	\$ -	\$ -	\$ 51,259
Accounts receivable	-	-	84,352	84,352
Due from General Operating Fund	27,882	130,037	-	157,919
Due from Community Development Fund	-	-	1,320	1,320
Total Assets	\$ 79,141	\$ 130,037	\$ 85,672	\$ 294,850
Liabilities				
Deferred revenue	\$ 79,141	\$ -	\$ -	\$ 79,141
Due to Remonumentation Fund	-	1,320	-	1,320
Due to General Operating Fund	-	-	29,314	29,314
Total liabilities	79,141	1,320	29,314	109,775
Fund Equities				
Unreserved, undesignated	-	128,717	56,358	185,075
Total Liabilities and Fund Equity	\$ 79,141	\$ 130,037	\$ 85,672	\$ 294,850

CALHOUN COUNTY ROAD COMMISSION
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2005

	Housing Rehabilitation	Community Development	Remonumen- tation	Total
Revenues				
Charges for services	\$ 46,160	\$ 10,973	\$ 178,644	\$ 235,777
Federal grant	-	100	-	100
Planning revenue	-	119,892	-	119,892
Total revenues	46,160	130,965	178,644	355,769
Expenditures				
Personal service costs	5,889	31,852	1,470	39,211
Contractual services	42,493	35,473	244,450	322,416
General and administrative	6,841	7,078	4,016	17,935
Total expenditures	55,223	74,403	249,936	379,562
Net change in fund balances	(9,063)	56,562	(71,292)	(23,793)
Fund balances, beginning of year	9,063	72,155	127,650	208,868
Fund balances, end of year	\$ -	\$ 128,717	\$ 56,358	\$ 185,075

CALHOUN COUNTY ROAD COMMISSION

Detail Schedule of Revenue General Operating Fund

Year Ended December 31, 2005

Revenues

Licenses and permits	\$ 120,527
Federal sources:	
Federal D funds	422,641
Surface transportation program (STP)	396,190
Total Federal Sources	<u>818,831</u>
State sources:	
Motor Vehicle Highway Funds - Act 51:	
Engineering	10,000
Primary roads	5,188,697
Local roads	1,996,092
Primary urban roads	613,492
Local urban roads	251,417
Exchange funds	215,395
Critical bridge program	279,158
Total State Sources	<u>8,554,251</u>
Local sources	
Township contributions	233,486
Other contributions	12,745
Total Local Sources	<u>246,231</u>
Charges for services	
State maintenance contract	1,982,411
Other services	292,215
Salvage sales	2,613
Total Charges For Services	<u>2,277,239</u>
Interest and rent	<u>11,405</u>
Other revenue:	
Net gain on equipment disposal	307,256
Other	396,988
Total Other Revenue	<u>704,244</u>
Total Revenue	<u>\$ 12,732,728</u>

CALHOUN COUNTY ROAD COMMISSION

Detail Schedule of Expenditures General Operating Fund

Year Ended December 31, 2005

Expenditures:

Construction	\$ 60,373
Heavy maintenance:	
Primary roads and structures	1,158,947
Local roads and structures	552,063
Total Heavy Maintenance	1,711,010
Maintenance:	
Primary roads and structures, winter and traffic control	3,871,197
Local roads and structures, winter and traffic control	2,713,718
Total Maintenance	6,584,915
Equipment:	
Direct	978,566
Indirect	767,501
Operating	333,989
Less: Equipment rental	(1,991,740)
Total Equipment	88,316
Administrative	949,338
Other	3,049,203
Capital outlay -net	(104,512)
Debt Service:	
Principal retirement	596,527
Interest	124,988
Total Debt Service	721,515
Total Expenditures	\$ 13,060,158

CALHOUN COUNTY ROAD COMMISSION

Schedule of Revenue, Expenditures and Changes

In Fund Balances

General Operating Fund

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues				
Licenses and permits	\$ -	\$ -	\$ 120,527	\$ 120,527
Intergovernmental:				
Federal sources	818,831	-	-	818,831
State sources	6,224,536	2,329,715		8,554,251
Local sources	-	29,955	216,276	246,231
Charges for services	2,248,786	-	28,453	2,277,239
Interest and rent	-	-	11,405	11,405
Other	-	-	704,244	704,244
Total revenue	9,292,153	2,359,670	1,080,905	12,732,728
Expenditures				
Construction	30,418	29,955	-	60,373
Preservation - structural improvements	1,158,947	552,063	-	1,711,010
Maintenance:				
Road and structures	2,557,804	1,947,844	-	4,505,648
Winter	841,075	666,278	-	1,507,353
Traffic control	472,318	99,596	-	571,914
Equipment - net	51,515	31,396	5,405	88,316
Administrative	574,918	374,420	-	949,338
Trunkline maintenance	1,943,585	-	-	1,943,585
Trunkline nonmaintenance		-	292,772	292,772
Other	153,102	-	659,744	812,846
Capital outlay - net	-	-	(104,512)	(104,512)
Debt service-principal	-	-	596,527	596,527
Debt service-interest	-	-	124,988	124,988
Total expenditures	7,783,682	3,701,552	1,574,924	13,060,158
Revenue over (under) expenditures before other financing sources (uses)	1,508,471	(1,341,882)	(494,019)	(327,430)
Other financing sources (uses)				
Bond proceeds	-	-	650,000	650,000
Optional transfers	(1,341,882)	1,341,882	-	-
Total other financing sources (uses)	(1,341,882)	1,341,882	650,000	650,000
Net change in fund balances	166,589	-	155,981	322,570
Fund Balance, beginning of year	895,749	-	1,064,245	1,959,994
Fund Balance, end of year	\$ 1,062,338	\$ -	\$ 1,220,226	\$ 2,282,564



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



April 14, 2006

Board of County Road Commissioners
Calhoun County Road Commission

We have audited the financial statements of the *Calhoun County Road Commission* for the year ended December 31, 2005, and have issued our report thereon dated April 14, 2006. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Calhoun County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Calhoun County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Calhoun County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Calhoun County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Calhoun County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Board and management of the Calhoun County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CALHOUN COUNTY ROAD COMMISSION

ACCOUNTING MEMORANDUM

YEAR ENDED DECEMBER 31, 2005

Ott Land Contract

This comment is repeated from prior years' accounting memorandums and has not yet been resolved. In accordance with the terms of a land contract related to the purchase of a building and land in 1998, interest at the rate of 10% accrues on the outstanding balance of \$175,000. Monthly payments of \$600 are called for, which results in negative amortization. The negative amortization has resulted in an increase in principal of \$12,800 in 2005, making the new balance \$266,733. The land contract provides for early payment "if grant monies can be found". In the year 2013, under the present payment scheme, the principal balance would grow to \$367,000.

We again recommend that the Road Commission continue to determine options for reducing this burden in order to eliminate the negative amortization, or to examine other options by either paying off the obligation, or refinancing the debt on this property should grant monies are secured.

Depreciation of Road Equipment

We noted that certain road equipment asset costs which are not fully depreciated had no depreciation expense reflected in 2005. The effect of this situation is to understate both equipment expense and the depreciation credit accounts.

Road assets with remaining book values should be evaluated and depreciated over their remaining useful lives.

Interfund Loans

This comment is repeated again for the year ended December 31, 2005. At December 31, 2005, the Road Commission fund has advanced The Board of Public Works Solid Waste fund \$601,784 which is shown as due from component units in the financial statements. These transactions represent an unauthorized use of Road funds if the loans are other than temporary. These loan balances have existed for the past several years.

The Board of Public Works Solid Waste fund has \$501,000 cash at December 31, 2005, which can be used to reduce the interfund borrowing. The Boards of the Roads and Public Works should explore ways to reduce the interfund loan balance completely.

Journal Entries

As part of our audit procedures, we tested the processes and controls for journal entries (transfer vouchers). It was noted that in several cases, there is no description or reason for the journal entry, nor was documentation supporting the entry attached.

It is recommended that in all cases the preparer of the journal entry or transfer voucher provide an explanation of the entry, and to attach to the entry page the proper support or documentation for the entry.

CALHOUN COUNTY ROAD COMMISSION

ACCOUNTING MEMORANDUM (Concluded)

YEAR ENDED DECEMBER 31, 2005

Budgeting

The actual operating expense for the Road Commission Fund shows that total equipment cost – net was \$88,316. This amount represents equipment costs less equipment rental credits, in accordance with the Road Commission Uniform Accounting Manual. The budgets for this net equipment costs does not take into account the equipment rental credit expected amount, causing each year a significant variance between the budget and actual amounts for equipment cost - net.

In future budget preparations, the equipment rental credit amount should be taken into consideration in order to account for the net costs of equipment.

* * * * *